

Ireland joins a list of countries who introduce temporary VAT rate cuts

Ireland reduces the standard rate of VAT from 23% to 21% from 1 September 2020 until 28 February 2021.

Background

Businesses operating in the tourism and hospitality sectors expected that the 13.5% VAT rate will also decrease. In the United Kingdom (UK), the VAT rate for these sectors has been lowered to 5%. However, Ireland did not cut the VAT rate for these sectors, instead the government has opted for the stay and spend tax credit to encourage demand among consumers to support these businesses.

Measures taken in other countries

In times of COVID-19, many countries have introduced temporary measures to support healthcare sector, e.g. various VAT rate reductions and exemptions for medical supplies. The EU temporarily waived customs duties and VAT on the import of medical equipment for qualifying goods imported between 30 January 2020 and 31 July 2020. On 23 July 2020, the European Commission extended this relief by three months until 31 October 2020.

Measures taken by governments in the field of VAT include deferral of payment, postponement of deadlines for filing VAT returns, and payment of VAT in installments. In addition, many countries have temporarily reduced the VAT rates, especially for hospitality and tourism sectors which have suffered most due to COVID-19.

Temporary VAT rate reductions

Germany reduced the standard VAT rate from 19 to 16% and the reduced rate from 7 to 5% for the period between 1 July 2020 and 31 December 2020. Germany applies the reduced VAT rate (5%) to supplies of food in restaurants and bars from 1 July 2020 until 30 June 2021.

Austria applies the reduced VAT rate (10%) for non-alcoholic beverages and a reduced VAT rate of 5% (decrease from 10%) for the catering, tourism, publishing, sporting and culture sectors between 1 July 2020 to 31 December 2020.

Belgium reduced the VAT rate for catering sector to 6% between 8 June 2020 to 31 December 2020.

Bulgaria reduced the VAT rate from 21% to 9% rate for restaurants and catering services (except alcoholic beverages).

Czech Republic reduced the VAT rate to 10% from 1 July 2020 for accommodation; cultural and sport events and activities, saunas and entertainment parks and since 1st May 2020: water; restaurant services; e- books and other e-publications; libraries; hairdressers, bike, shoes and clothes repairs, cleaning in private households.

Cyprus reduced the VAT rate applicable to the tourism and catering sector from 9% to 5% between 1 July 2020 and 10 January 2021.

Greece applies reduced VAT rate of 13% for any type of passenger transport, coffee and non-alcoholic beverages, the provision of services in cafes, restaurants and pastry

shops, as well as cinema tickets from 1 June 2020 until 31 October 2020.

Italy revoked the increases of VAT rates which would have come into effect starting from 1 January 2021.

UK applies 5% reduced rate of VAT between 15 July 2020 and 12 January 2021 to certain supplies of hospitality, accommodation and admission to attractions.

Norway reduced the low VAT rate to 6% from 1 April 2020 to 31 October 2020.

Turkey reduced the VAT rate on domestic passenger airline transportation to 1% from 18% as of 1 April 2020 to 30 June 2020.

The only country that has considerably raised the VAT rate is Saudi Arabia that tripled the VAT rate to 15% from 1 July 2020.

Netherlands does not reduce the VAT rates

The implementing of the temporary VAT rates in the accounting systems entails a lot of costs for the businesses and it is questionable whether any price reductions are passed on to the consumers, therefore, the **Netherlands** has decided not to reduce any VAT rates.

Impact on business relationships and on internal business processes

Considering the temporary VAT rate changes, the following should be taken into consideration.

Various aspects should be reviewed critically, such as tax points / time of supply to determine the applicable VAT rates. Other examples are advance payments, partial and continuous supplies, long-term contracts and vouchers and correction of the assessment base (e.g. annual rebates).

Besides the issues discussed above, the following requirements for your internal business processes arise from VAT rate changes:

- Setting up new tax codes in the accounting system(s) of the company, including cash register systems.
- Update of the VAT invoice template.
- Increased need to check incoming invoices in order to avoid incorrect input VAT deduction; if the invoice verification is automated, the verification logic would also have to be updated accordingly.

Contact

Grant Thornton's international indirect tax team and digital advisory team can assist you during your update of your systems, e.g. cash register systems and ERP software. Please contact us if you would like to discuss.



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